OLG ANNUAL REPORT 2007–2008

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Lottery and Bingo

OLG Casinos and Slots at Racetracks

Resort Casinos

Past:

- Partner with the law firm of Osler, Hoskin & Harcourt LLP
- Ontario Ministries of the Attorney General, Consumer and Commercial Relations, and Treasury, Economics and Intergovernmental Affairs

Board Committees:

- Audit and Risk Management Committee
- Governance and Nominating Committee
- Human Resources and Compensation Committee
- Ad Hoc Committee for the Oversight of the Ontario Ombudsman's and KPMG's Recommendations on Lottery

March 1, 2006 – February 28, 2009

Current:

- Owner and Principal, Stoney Lake Management Consulting

Past:

- Partner with Tandem International

Board Committees:

- Human Resources and Compensation Committee (Chair)
- Audit and Risk Management Committee

August 25, 2004 – August 24, 2010

Current:

- Partner of the Brantford, Ontario accounting firm Millard, Rouse & Rosebrugh LLP

Board Committees:

- Audit and Risk Management Committee (Chair)

February 15, 2006 – February 14, 2009

Current:

- Founder of RosatiNet, Inc., a venture catalyst firm

Past:

- Co-founder/CFO of technology start-up TimeStep Corporation (later acquired by Newbridge Networks)
- General partner at Celtic House
- Senior finance positions with Tundra, Cognos, and BDO Dunwoody

Board Committees:

- Audit and Risk Management Committee
- Human Resources and Compensation Committee

May 16, 2007 – May 15, 2010

Current:

- Chief Investment Officer for Gestion Groupe Samson Inc.

Past:

- Executive Chair of the Board of Directors of Multi-Marques Inc.

Board Committees:

- Ad Hoc Committee for the Oversight of the Ontario Ombudsman's and KPMG's Recommendations on Lottery (Chair)
- Audit and Risk Management Committee
- Governance and Nominating Committee

July 5, 2004 – July 4, 2010

Current:

- President of Anderson Soublière Inc.

Past:

- President and COO of Alis Technologies
- President, Systemhouse Canada and International

Board Committees:

- Audit and Risk Management Committee
- Human Resources and Compensation Committee

May 30, 2007 – May 29, 2010

Current:

- President and Chief Executive Officer of the Institute of Corporate Directors

Past:

- Founder of Today's Parent Group

Board Committees:

- Governance and Nominating Committee (Chair)
- Audit and Risk Management Committee
- Ad Hoc Committee for the Oversight of the Ontario Ombudsman's and KPMG's Recommendations on Lottery

July 5, 2004 – July 4, 2010

Executive Management

During the 2008 fiscal year, senior executive members responsible for day to day operations were:

KELLY MCDONGALD

Chief Executive Officer

Effective October 15, 2007

RICK BAKO

Chief Risk Officer

Effective October 30, 2006

JOHN BLACK

Chief Financial Officer

Effective April 4, 2005

RICHARD CAMPBELL

Senior Vice President, Human Resources

Effective February 5, 2008

LARRY FLYNN

Senior Vice President, Gaming

Effective October 1, 2001

CHRISTOPHER GUNTHER

Senior Vice President, Legal, General Counsel and Corporate Secretary

Effective January 21, 2008

THOMAS MARINELLI

Vice President, Chief Information Officer

Effective October 18, 2007

GEORGE SWEENY

Senior Vice President, Lottery

Effective July 26, 2004

In addition, two new positions were recently announced with recruitment underway: Chief Security and Compliance Officer and Senior Vice President, Marketing, Communications and Stakeholder Relations.

Financial Contributions

Created on April 1, 2000 under the *Ontario Lottery and Gaming Corporation Act, 1999*, the Ontario Lottery and Gaming Corporation (OLG) is a provincial agency operating and managing province-wide lotteries, casinos and slots facilities at horse racing tracks.

Since 1975, OLG has generated more than $28 billion for the benefit of the province of Ontario, all of which is invested by the government to support hospitals, amateur sport, recreational and cultural activities, communities, provincial priority programs such as health care, education, local and provincial charities and non-profit organizations through the Ontario Trillium Foundation.

Allocation of OLG Revenues ($ Millions) $1,856 million
As reported by Ontario Ministry of Finance
Public Accounts of Ontario 2007–2008

Operation of Hospitals – 1,515

Government Priorities – health, education, infrastructure – 189

Ontario Amateur Sports – 10

Problem gambling prevention, treatment and research – 37

Ontario Trillium Foundation – 105

Municipal and Industry Payments – Host municipalities for slots at racetracks receive five per cent of slot machine revenues from the first 450 machines, and two per cent from each additional machine. Racetracks and horse people receive 10 per cent each of the gross slot machine revenues from slots at racetrack facilities.

Lottery Retailer Commissions – In 2007–2008, OLG's 10,700 lottery retailers received $193.5 million in sales, prize redemption and bonus commissions.

Responsible Gambling – Currently, two per cent of revenue from slot machines at OLG casinos and slots facilities is allocated to the province's problem gambling program for research, treatment and prevention programs. A minimum of $36 million per year has been committed to this program.

Sponsorships – In 2007–2008, OLG sponsored 184 community events for a total dollar value of more than $2.1 million.

Employment – OLG – including the resort casinos – employs more than 19,000 Ontarians through its various business lines, contributing $943 million in payroll to local economies.

OLG Casinos	Host Municipality	Municipal Revenue Share
Brantford	Brantford	$ 3,678,731
Point Edward	Point Edward	$ 1,975,372
Sault Ste. Marie	Sault Ste. Marie	$ 1,523,898
Thunder Bay	Thunder Bay	$ 2,529,920
Thousand Islands	Gananoque, Leeds and Thousand Islands	$ 3,288,832

OLG Slots	Host Municipality	Municipal Revenue Share	Horse Industry Revenue Share
Ajax Downs	Ajax	$ 5,022,515	$ 20,090,060
Clinton Raceway	Central Huron	$ 646,307	$ 2,585,230
Dresden Raceway	Chatham-Kent	$ 701,739	$ 2,806,958
Flamboro Downs	Hamilton	$ 4,570,758	$ 24,804,142
Fort Erie Race Track	Fort Erie	$ 1,434,240	$ 8,856,012
Georgian Downs	Innisfil	$ 4,781,595	$ 19,253,992
Grand River Raceway	Centre Wellington	$ 1,994,020	$ 7,976,082
Hanover Raceway	Hanover	$ 982,584	$ 3,930,338
Hiawatha Horse Park	Sarnia	$ 1,634,409	$ 6,555,040
Kawartha Downs	Cavan Monaghan	$ 3,362,251	$ 13,449,004
Mohawk Racetrack	Milton	$ 5,740,526	$ 32,132,504
Rideau Carleton Raceway	Ottawa	$ 4,007,182	$ 26,009,062
Sudbury Downs	Sudbury	$ 2,369,350	$ 9,477,402
Western Fair Raceway	London	$ 4,155,409	$ 21,870,576
Windsor Raceway	Windsor	$ 1,748,679	$ 9,203,576
Woodbine Racetrack	Toronto	$ 16,305,433	$ 121,967,182
Woodstock Raceway	Woodstock	$ 1,102,393	$ 4,409,572

Renewed Strategic Approach

Taking an organization from good to great requires that staff and management understand its objectives and are clear on how its success is defined. In fiscal 2008, OLG engaged employees across the organization in an exercise to clearly articulate and express its corporate mandate as it strives to become a leader and role model for gaming entertainment worldwide. The result is a roadmap for the organization's work over the next three to five years, called the Balanced Framework. It is comprised of four equally balanced priorities. They are:

Public Trust – Being guardians of the public trust through integrity of operations and promotion of responsible gaming.

Player Experience – Providing great, entertaining gaming experiences.

Partner Edge – Being great partners in the communities in which we operate including helping our partner businesses and communities to thrive.

Profit – Returning dividends to support public initiatives.

Together, these four priorities ensure that OLG's decisions are balanced, reflecting both the need to always put the customer first and the objective of generating revenues that the province can invest in important public initiatives. By delivering on the promise of the Balanced Framework, OLG can enhance the public's trust in the organization.

As a part of the entertainment industry, the Corporation's long-term success also depends on the quality of the entertainment value it provides a wide range of adults, while encouraging a culture of moderation and responsible gaming.

Ultimately, the dividend generated by OLG for investment in various programs and the regional employment opportunities created as a result of the organization's presence across the province mean that OLG is a true partner in the support and development of Ontario's communities. This is a responsibility that cannot be – and is not – taken lightly. By fostering a culture of integrity, transparency and accountability, guided by the Four Pillars, OLG has positioned itself to fulfill its stated vision of becoming a leader and role model for gaming entertainment worldwide.

OLG works with Ontario Government ministries and non-governmental agencies to ensure that:

- people affected by problem gambling have the information they need to recognize its signs and get help;
- gaming environments empower players to make decisions that are right for them and offer support for people who wish to take a break from gambling; and
- employees have the tools they need to help those with concerns about their gambling.

Providing Information

OLG helps customers understand the realities of gambling and develop strategies to manage their play through a variety of initiatives and channels. Some examples are:

- Working with independent researchers, the Ontario Problem Gambling Research Centre (OPGRC) and OLG have developed an animated video that shows how slot machines work and the true odds of winning.
- OLG and OPGRC also contacted 50,000 Winner's Circle members by a letter explaining how to prevent problem gambling, and providing information on the availability of counseling. Follow-up surveys suggest that the information was retained by the recipients who read the letter.
- OLG participated in and promoted *Within Limits: Problem Gambling Prevention Month* in March 2008, an initiative of the Responsible Gambling Council.
- Through its lottery retail network, OLG conducted an information brochure campaign to inform lottery players about the warning signs of problems; to dispel myths about the odds of winning; and to provide resources that can be accessed confidentially to help an individual overcome a gambling problem.

Self-Exclusion

Self-exclusion is another resource available to people who may be experiencing a problem with gambling. The process is initiated when an individual asks to be excluded from gaming facilities. If individuals are detected at a gaming site during the period of exclusion, OLG staff will escort them from the premises.

OLG is enhancing its support for those individuals in the program, at the time they enter the program and sign the self-exclusion form, during the period of self-exclusion, and at the time they may apply for re-entry to an OLG gaming site. During the period of self-exclusion, these individuals are removed as quickly as possible from marketing mailing lists and denied any participation in promotions and contests.

Age Control

To assist its lottery retailers, OLG has partnered with the Ontario Convenience Store Association to introduce new technology that enhances age control measures while protecting personal privacy. Retailers can now verify the age of customers by swiping their Ontario Driver's Licence through the magnetic card reader attached to the lottery terminal.

Engaging Employees

OLG surveys its employees annually to ensure the effectiveness of its Responsible Gaming (RG) training programs. Recent findings indicate that staff are engaged in and committed to RG, with gaming employees expressing a growing confidence in their ability to dispel myths and inform patrons about finding help. Non-gaming employees are increasingly aware of problem behaviours, helpful strategies and OLG's initiatives related to Responsible Gaming.

Moving Forward

OLG is preparing to pilot facial recognition technology to help detect self-excluded patrons who attempt to gain entry to gaming floors at casinos. To provide the highest standard of privacy protection for facial images, OLG will work to build a system that incorporates biometric encryption algorithms developed by researchers at the University of Toronto and supported by the Information and Privacy Commissioner of Ontario.

In early 2008, OLG decided to expand its Responsible Gaming Resource Centres (RGRCs) to all 28 gaming sites – OLG Casinos and Slots and Resort Casinos – based on the success of pilot sites at Casino Windsor and Niagara Fallsview Casino Resort. RGRCs are operated by the Responsible Gambling Council, an independent, non-profit organization, and provide customers with general information on safe gambling practices and confidential referrals to treatment and support programs.

LOTTERY AND BINGO

In fiscal 2008, as OLG celebrated LOTTO 6/49's 25th anniversary with record sales and prizes, the organization was also implementing the Ombudsman's and KPMG's recommendations to help assure lottery customers and the people of Ontario of the integrity of OLG's lottery products and services.

Guided by the Board of Directors, a steering committee of senior executives was struck to guide implementation, and OLG reported quarterly to the Ombudsman with its final report submitted in March 2008. The result has been a new approach to player protection which will continue to shape program design in the years ahead.

The changes undertaken focus on lottery customers, lottery retailers, insiders, the lottery system itself and a restructuring of the OLG organization.

By year-end, lottery terminals were enhanced with music and voice alerts announcing ticket status and customer ticket checkers had been installed at all lottery terminal locations. On January 28, 2008, it became mandatory for customers to sign their tickets prior to validation by a retailer. The Alcohol and Gaming Commission of Ontario (AGCO) also assumed the regulatory and oversight role for lotteries this year. Virtually all lottery retailers in the province had been registered and a system was put in place for all major insider wins to be investigated by the Ontario Provincial Police bureau assigned to the AGCO.

The bingo industry continued to face various issues and challenges. Approximately 15 per cent of halls in Ontario closed during fiscal 2008, while the number of halls participating in Big LINK Bingo dropped from 34 to 26 by the end of the fiscal year. The launch of five new e-Bingo sites was delayed so that the results of a stakeholder-commissioned market stability study could be reviewed and potential for market growth in the Windsor area fully assessed.

While Lottery and Bingo revenues continued to lead the way with $2.8 billion in gross sales, net income of $687 million was seven per cent lower than the previous year.

OLG Casinos and Slots at Racetracks

Fiscal 2008 has been filled with many accomplishments and challenges for OLG Casinos and Slots at Racetracks Division.

First and foremost, the Slot Refresh initiative was implemented to identify and replace under performing slot machines at all sites with new games selected on the basis of research into customer preferences.

The Division also established Gaming Facility Design Criteria that will be used as the basis for a Property Re-imaging Program, proposed for 22 gaming sites, which will strengthen OLG's brand equity in these public spaces. A Site Holder Agreement Strategy was also developed this year that anticipates the upgrade of all racetrack facilities and capital reinvestment by site holders.

The design of Slots at Quinte Racetrack was substantially completed in fiscal 2008, with construction planned to begin in fiscal 2009. An agreement was reached with the Great Canadian Gaming Corporation to expand OLG's slot facility at Georgian Downs, adding 545 slot machines to create a gaming floor of 1,000 machines and additional amenities to be completed in fiscal 2011.

The Division also successfully launched several new responsible gaming initiatives including a Self-Exclusion Alarm Project that alerts OLG to self-excluded patrons who visit a gaming facility and use their Winner's Circle Rewards card.

An Analytical Centre of Excellence was established to improve the decision-making process for product selection, marketing promotions and staffing. We are developing a new employee scheduling system that incorporates applicable key volume indicators to help determine optimum staffing requirements.

This year the Division's Marketing department established a Customer Centric Planning process that makes assessment of customer satisfaction the first step in identifying strategies for future growth. Initiatives such as the Check Your Cheque and Velvet Rope programs, an annual $100,000 Slot Championship and Licence to Win events support the customers' desire for fun and excitement.

Overall, the division finished the year with gross revenues of $2.1 billion, which was $85 million higher than last year.

While overall revenues were up, border properties suffered from the effect of the strong Canadian dollar, border crossing issues, and increased competition. Positive results from the slot refresh program helped to offset these effects, as did new promotional strategies, partnerships, planning processes and an increased emphasis on customer service excellence.

OLG's four Resort Casinos – Casino Windsor, Niagara Fallsview Casino Resort, Casino Niagara and Casino Rama – differ from other OLG gaming facilities in that they are operated by third party companies under contract with OLG, and provide "destination" gaming with a focus on amenities such as entertainment, food and beverage. As part of Ontario's entertainment and tourism industry, OLG's Resort Casinos face the same competitive challenges of other resorts and tourist destinations – from the strength of the Canadian dollar, to border crossing issues and competition from US casinos. As a result of these pressures, total resort casino revenue was down $68 million from the previous year, to $1.4 billion in 2007–2008.

Despite these challenges, opportunities exist for OLG to maintain its share of the resort and tourist market and we continue to look for ways to improve our Resort facilities and offer customers more reasons to come and enjoy the world-class gaming experience they offer.

This year Casino Windsor has been working toward the scheduled June 2008 completion of its expansion and rebranding as Caesars Windsor – the first Caesars outside of the United States. The total cost of the expansion is estimated to be in the range of $439 million. In partnership with Harrah's and OLG, Casino Windsor has already launched Total Rewards, one of the most comprehensive credit-based loyalty programs in the world – allowing patrons to earn and redeem points at any of Harrah's 37 casinos across North America and allowing OLG to better understand and serve its patrons.

Strategic initiatives at Casino Niagara and Fallsview Casino Resort include expanded entertainment offerings, phased amenity improvements and marketing programs and promotions intended to address competitive challenges. Phase one of the amenity improvements at Niagara Fallsview Casino Resort was completed during the year which saw a portion of the Grand Buffet converted into a delicatessen located off the gaming floor, offering patrons a quick "grab and go" lunch alternative at a lower price point. An additional 400 parking spaces were acquired within walking distance of the Fallsview Casino to accommodate busy weekend traffic during the summer months. Phase two of the amenity improvements will continue into fiscal 2009.

At Casino Rama, the expansion of the High Limit table games area – increasing the premium player capacity by 40 per cent – and amenities improvements have been well received by customers. And for the eleventh year in a row, Casino Rama took top honours in the Toronto Sun Readers' Choice Awards as Ontario's Favourite Casino.

Management's responsibility for annual reporting

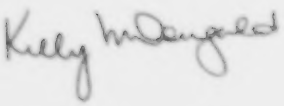
The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. Where required, management has made informed judgments and estimates in accordance with Canadian Generally Accepted Accounting Principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The Chief Risk Officer, responsible for Internal Audit and Enterprise Risk Management, reports directly to the Audit and Risk Management Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the Committee.



Kelly McDougald

Chief Executive Officer

May 16, 2008

John Black

Chief Financial Officer

May 16, 2008

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Public Infrastructure Renewal

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2008 and the consolidated statements of income and other comprehensive income, retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

KPMG LLP

Chartered Accountants,
Licensed Public Accountants
Toronto, Canada

May 16, 2008, except as to
notes 8 and 13f, which are
of June 10, 2008

Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants
Sault Ste. Marie, Canada

May 16, 2008, except as to
notes 8 and 13f, which are as
of June 10, 2008

Consolidated Balance Sheet

As at March 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 361,152	$ 408,076
Accounts receivable	78,899	78,699
Prepaid expenses and other	53,658	59,276
Current portion of loans receivable (Note 4)	7,892	7,482
	501,601	553,533
Restricted cash (Note 3)	183,491	122,400
Pre-opening and deferred expenditures (Note 3)	4,595	5,550
Loans receivable (Note 4)	57,604	49,760
Property, plant and equipment (Note 5)	2,500,217	2,412,353
Goodwill	1,776	1,776
Assets contributed to Chippewas of Mnjikaning (Note 7)	13,975	15,057
Cash and short term investments held for First Nations (Note 8)	208,048	173,113
	$ 3,451,305	**$ 3,333,542**
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 366,671	$ 366,436
Due to operators (Note 9)	42,337	50,754
Due to Chippewas of Mnjikaning (Note 9)	1,957	2,534
Due to Government of Canada (Note 18)	8,534	6,042
Deferred revenues	16,131	13,366
Current portion of due to First Nations (Note 8)	47,374	-
Current portion of long term debt (Note 10)	191,381	176,974
	674,385	616,106
Due to First Nations (Note 8)	160,674	173,113
Long term debt (Note 10)	195,787	214,347
Accrued future benefit costs (Note 16)	36,012	17,902
Asset retirement obligation	1,352	1,163
EQUITY		
Retained earnings	2,251,737	2,121,733
Contributed surplus	62,345	60,645
Reserves (Note 2)	168,939	122,091
	2,483,041	2,310,509
	$ 3,451,305	**$ 3,333,542**

Commitments (Notes 2, 4, 9 and 12)
Contingencies (Notes 9 and 13)
Subsequent events (Notes 8 and 13)
See accompanying Notes to Consolidated Financial Statements

On behalf of the Board

Michael J. Gough
Chair

Marlene McGraw
Director

Consolidated Statement of Income and Other Comprehensive Income

Year ended March 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Revenues		
Lotteries and bingo	$ 2,773,125	$ 2,655,607
Resort casinos	1,395,319	1,463,676
Casinos and slots at racetracks	2,050,831	1,965,510
	6,219,275	**6,084,793**
Operating expenses		
Lotteries and bingo	2,090,635	1,919,744
Resort casinos	1,470,586	1,489,268
Casinos and slots at racetracks	1,095,599	1,043,755
	4,656,820	**4,452,767**
Income before the undernoted	**1,562,455**	**1,632,026**
Interest and other income	48,141	46,175
Interest on long-term debt	(14,204)	(26,864)
Foreign exchange gain	11,039	16,784
Net income and other comprehensive income	**$1,607,431**	**$1,668,121**

Segmented information (Note 14)

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Retained Earnings

Year ended March 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Retained earnings, beginning of year	$ 2,127,773	$ 1,751,103
Net income	1,607,431	1,668,121
Transfers (to) from reserves, net	(46,868)	111,524
Distribution to First Nations on behalf of the Province of Ontario	(54,672)	(40,409)
Payments to the Province of Ontario	(1,381,927)	(1,362,566)
Retained earnings, end of year	**$2,251,737**	**$2,127,773**

Consolidated Statement of Contributed Surplus

Year ended March 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Contributed surplus, beginning of year	$ 60,645	$ 60,645
Contributed property, plant and equipment	1,700	–
Contributed surplus, end of year	**$ 62,345**	**$ 60,645**

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

Year ended March 31, 2008, with comparative figures for 2007 (in thousands of dollars)

	2008	2007
Cash derived from (used in):		
Operations		
Net income	$ 1,607,431	$ 1,668,121
Amortization of property, plant and equipment and asset retirement obligation	255,190	230,333
Amortization of non-property, plant and equipment	4,317	8,098
Accretion expense	186	84
Loss on disposal of property, plant and equipment	7,415	10,559
Change in non-cash working capital		
Accounts receivable	(200)	(30,058)
Prepaid expenses and other	5,618	(2,532)
Accounts payable and accrued liabilities	235	48,546
Due to operators	(8,417)	1,883
Due to Chippewas of Mnjikaning	(577)	1,396
Due to Government of Canada	2,492	(320)
Deferred revenues	2,765	(3,509)
Accrued future benefit costs	8,170	7,101
Due to First Nations	(12,293)	5,635
Net cash from operations	1,872,332	1,945,337
Financing		
Increase in long-term debt	82,415	–
Repayments of long-term debt	(176,973)	(250,742)
Payments to Province of Ontario	(1,381,927)	(1,362,566)
Distributions to First Nations	(42,379)	(46,044)
Net cash used in financing activities	(1,518,864)	(1,659,352)
Investing		
Pre-opening and deferred expenditures	(2,278)	(486)
Issuance of loans receivable	(814)	(7,555)
Repayment of loans receivable	12,560	10,051
Capital expenditures	(352,234)	(362,062)
Proceeds on disposal of property, plant and equipment	3,465	3,374
Business acquisition	–	(2,500)
Decrease (increase) in restricted cash	(61,091)	160,451
Net cash used in investing activities	(400,392)	(198,727)
Increase (decrease) in cash and cash equivalents	(46,924)	87,258
Cash and cash equivalents, beginning of year	408,076	320,818
Cash and cash equivalents, end of year	**$ 361,152**	**$ 408,076**
Cash and cash equivalents are comprised of:		
Cash	$ 325,342	$ 329,376
Cash equivalents	35,810	78,700
	$ 361,152	$ 408,076
Supplemental disclosure of cash flow information		
Cash interest received	$ 15,507	$ 19,042
Cash paid for interest	14,585	25,847

See accompanying Notes to Consolidated Financial Statements.

The Ontario Lottery and Gaming Corporation (Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five casinos and the Great Blue Heron Casino Slot Machine Facility, seventeen slot operations at racetracks and four resort casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) and the Great Blue Heron Casino Slot Machine Facility, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its 100 per cent owned subsidiary.

In addition, the consolidated financial statements combine the financial position and results of operations of the resort casinos at Casino Windsor, Casino Rama, Casino Niagara and Fallsview, and of the Great Blue Heron Casino Slot Machine Facility.

The assets, liabilities and operations of the Great Blue Heron Casino Slot Machine Facility are included in these consolidated financial statements. The operating results are included with the results of the casinos and slots at racetracks. These consolidated financial statements do not include other operations carried out at the Great Blue Heron Casino.

b. Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from lottery games, for which results are determined based on a draw, is recognized when tickets are sold to consumers and the related draw occurs. Revenue from instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from sports wagering games and bingo gaming is recognized when the ticket, paper, or electronic game is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the difference between amounts earned through gaming wagers less the payouts from those wagers, with liabilities recognized for funds deposited by customers before gaming play occurs, for chips, and 'ticket-in, ticket-out' coupons in the customers' possession, and for accruals related to the anticipated payout of progressive jackpots. Base jackpots for progressive slot machines are charged to revenue over the estimated jackpot life cycle. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins or credits played, are charged to revenue as the amount of the jackpots increase.

Discretionary and non-discretionary incentive programs are recorded in accordance with the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract 156, 'Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)' (EIC 156). EIC 156 requires that sales incentives and points earned in loyalty programs be recorded as a reduction of revenue. The Corporation recognizes incentives related to gaming play and points earned in loyalty programs as a promotional allowance.

Discretionary incentive programs, such as non-cashable free play, are offered based on past levels of play or to induce future play. Discretionary, non-cashable free play is not recorded as revenue. Non-discretionary incentive programs, such as point-based loyalty programs, are offered based on past levels of play.

Non-gaming revenue includes revenue from hotel, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

c. Promotional allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons.

The players' loyalty programs at the casinos and slots at racetracks allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income and other comprehensive income.

d. Total Rewards point liability program

In June 2007, Casino Windsor implemented Harrah's Entertainment Inc.'s (Harrah's) Total Rewards customer loyalty program. Total Rewards offers incentives to customers who game at the Casino as well as at any of Harrah's casinos throughout the United States. Under the program, customers are able to accumulate, or bank, reward credits over time, which they may redeem at their discretion under the terms of the program. The reward credit balance will be forfeited if the customer does not earn a reward credit over the prior six-month period. Non-gaming expenses include the expense of reward credits as they are earned. In addition to reward credits, customers can earn points based on play that are redeemable in cash ("cash-back points"). Promotional allowances include the cost of cash-back points as they are earned.

e. Lottery prizes

Prize expense for lottery and bingo games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party. An estimate for lottery prizes that will not be claimed is recognized as unclaimed prizes in the period revenue is recognized. Periodically, prize expense is adjusted to reflect amounts actually won and/or unclaimed.

f. Commissions and bonuses

Lottery retailers receive a commission of 8 per cent on all instant tickets and a commission of 5 per cent on all on-line tickets sold. Where commission has been paid to retailers for deferred revenue ticket sales, this fee is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers also receive a 3 per cent commission on instant ticket redemptions and a commission of 2 per cent on on-line ticket redemptions. A $1,000 bonus is paid to any retailer who sells a major prize winning on-line ticket, excluding sports and daily games.

Bingo service providers receive a commission based on a percentage of total revenue, plus or minus incentive adjustments for achieving sales, prize payout, and cost of goods sold targets. Municipalities who host the Corporation's bingo halls receive a commission based on a percentage of total revenue.

Racetrack owners and horse people each receive 10 per cent of revenue from slots. Municipalities who host an OLG Casino or Slots at Racetrack facility receive 5 per cent of revenue from slots up to 450 machines and 2 per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Casino, the Mississaugas of Scugog Island First Nation receive 5 per cent of the revenue from the slot machines.

g. Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days. As at March 31, 2008, cash and cash equivalents include bank term deposits amounting to $35,810,000 (2007 – $78,700,000) at an interest rate of 2.2 to 3.5 per cent (2007 – 4.1 to 4.2 per cent).

h. Retailer accounts receivable

Retailer accounts receivable represents lottery and bingo proceeds due from lottery retailers and bingo service providers for lottery ticket and bingo sales net of commissions due to and prizes paid by the retailers and service providers, and allowance for bad debt.

i. Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other direct costs incurred in connection with the development and opening of gaming sites, are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred with the development of a management information system, are deferred and amortized over a period not exceeding five years.

j. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	Over term of lease
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Property, plant and equipment are amortized when put into use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project.

Interest charges incurred during the construction and development of property, plant and equipment is capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

k. Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

As at March 31, 2008 and March 31, 2007, no impairments in the carrying value of these assets existed, except as disclosed in Note 6.

l. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

m. Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it is incurred and can be reasonably estimated. This liability is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. The Corporation has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases.

Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The resultant changes to the obligation that result from the passage of time are expensed in the period as accretion expense and any changes resulting from changes in the estimated future cash flows are capitalized to the cost of the leasehold improvements.

For the year ended March 31, 2008, the Corporation recorded amortization expense of $306,000 (2007 – $227,000) in the consolidated statement of income and other comprehensive income. The Corporation recorded a liability of $1,352,000 (2007 – $1,165,000) for the estimated present value of the costs of retiring leasehold improvements at the maturity of the leases and recorded deferred asset retirement costs of $366,000 (2007 – $564,000).

The gross amount of the obligation is $1,431,000 (2007 – $1,299,000), which is expected to be paid out in one to eight years. The credit adjusted risk-free rate is 7 per cent. The accretion expense for the year was $186,000 (2007 – $84,000).

n. Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Corporation enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. As at March 31, 2008 and March 31, 2007, no impairment in the carrying value of this asset existed.

o. Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, seniors' centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease, which expires in March 2021.

p. Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Consolidated statement of income and other comprehensive income items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the consolidated statement of income and other comprehensive income in the period in which they arise.

q. Guarantees

The Corporation has adopted the disclosure provisions related to the Canadian Institute of Chartered Accountants' Accounting Guideline No. 14, "Disclosure of Guarantees." There are no guarantees that require disclosure in the consolidated financial statements.

r. Use of estimates

The preparation of consolidated financial statements requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of property, plant and equipment and goodwill, unclaimed prize liability, employee future benefit obligations, asset retirement obligations, the players' loyalty program provision, the amount due to Government of Canada and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

s. Change in accounting policies

i) Accounting changes

On April 1, 2007, the Corporation adopted a new accounting policy for accounting changes by adopting the new standards of the CICA Handbook Section 1506, Accounting Changes. The Section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of the new policy had no material impact on the Corporation's consolidated financial statements at March 31, 2008.

ii) Financial instruments

i) Adoption of new financial instruments standards

On April 1, 2007, the Corporation adopted CICA Handbook Section 1530, Comprehensive Income, CICA Handbook Section 3251, Equity, CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and CICA Section 3865, Hedges. These new handbook sections provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Prior period results are not required to be restated, except in connection with the presentation of the statement of comprehensive income relating to the changes in the foreign currency translation adjustment account.

The consolidated statement of income includes net income as well as other comprehensive income, where applicable. Accumulated other comprehensive income forms part of equity.

Under these new standards, all financial instruments have been classified into one of the following categories: available-for-sale, held-to-maturity, held-for-trading, loans and receivables or other financial liabilities. All financial instruments, including derivatives, are recorded on the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend upon their initial classification.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value, with changes in fair value recorded in the consolidated statement of income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the hedged asset or liability is recognized in the consolidated statement of income and other comprehensive income. Any hedge ineffectiveness is recognized in net income immediately. There were no hedging derivatives that were outstanding as at April 1, 2007. As part of the process of implementing these new standards, all contracts signed after April 1, 2003 were reviewed to identify embedded derivatives requiring separation from the host contract. No material embedded derivatives requiring separation were identified.

Effective April 1, 2007, the Corporation began recording all transaction costs and loan fees for financial assets and liabilities as a component of the related asset or liability and amortizing the costs using the effective interest rate method to interest expense over the life of the related asset or liability. Upon adoption, there was no impact to the Corporation's consolidated financial statements.

ii) Derivative instruments

The Corporation uses derivative financial instruments to manage risks from market price fluctuations for energy. These instruments include forward pricing agreements. The Corporation does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of derivatives are recorded in the consolidated statement of income and other comprehensive income.

t. Recent Canadian accounting pronouncements

1. Financial instruments

In 2006, the CICA issued Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards enhance existing disclosure requirements and place greater emphasis on disclosures related to recognized and unrecognized financial instruments and how those risks are managed. The Corporation will adopt these new standards effective April 1, 2008 and is assessing the impact of the new standards on its consolidated financial statements.

2. Capital disclosures

In 2006, the CICA issued Handbook Section 1535, Capital Disclosures ("CICA 1535"). CICA 1535 requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital – including disclosures of any externally imposed capital requirements and the consequences for non-compliance. The Corporation will adopt this new standard effective April 1, 2008 and is assessing the impact of the new standard on its consolidated financial statements.

3. Inventories

In 2007, the CICA issued Handbook Section 3031, Inventories, which establishes the principles for measurement, recognition and disclosure of inventories. The Corporation will adopt this new standard effective April 1, 2008, and is assessing the impact of the new standard on its consolidated financial statements.

4. Goodwill and intangible assets

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Corporation will adopt this new standard effective April 1, 2009 and is assessing the impact of the new standard on its consolidated financial statements.

2. RESTRICTED CASH AND RESERVES

Included in restricted cash are the below noted amounts, which are held in separate accounts.

	2008	2007
Reserves		
Capital renewals	$ 45,416	$ 65,348
Operating	87,063	23,729
Severance	36,480	33,014
	168,959	122,091
Less unrestricted capital renewals and operating	43,339	36,827
Funded reserves balance	125,620	85,264
Prize funds on deposit	41,900	28,602
Term loan proceeds	15,971	8,534
	$ 183,491	$ 122,400

The Corporation has established reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

i) Capital renewals reserves – For property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;

ii) Operating reserves – To satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations; and

iii) Severance reserve – To satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

In fiscal 2008, the Corporation transferred cash of $95,000,000 and $14,000,000 to Casino Windsor's operating and capital renewals reserves, respectively, to replenish the reserve accounts to the balances specified by the terms of the operating agreement. The Corporation and the Operator have agreed that both the operating and capital renewals reserves, although contractually set aside for the above uses, are available to fund current operations, given the Casino's continuing negative cash flows. The Corporation has committed to transferring additional amounts of up to $63,000,000 to Casino Windsor in fiscal 2009.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by consumers.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Niagara Fallsview Casino Resort and Casino Windsor.

7. PRE-OPENING AND DEFERRED EXPENDITURES

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Pre-opening expenditures				
Resort casinos	$ 16,588	$ 14,506	$ 2,082	$ 1,162
Casinos and slots at racetracks	4,594	3,035	1,559	2,786
	21,182	17,541	3,641	3,948
Deferred expenditures	22,097	21,145	952	1,602
	$ 43,279	$ 38,686	$ 4,593	$ 5,550

Amortization of pre-opening and deferred expenditures for the year ended March 31, 2008 was $3,235,000 (2007 – $7,016,000).

4. LOANS RECEIVABLE

	2008	2007
Loans receivable	$ 48,329	$ 60,442
Less allowance for loans receivable	2,833	3,200
	45,496	57,242
Less current portion of loans receivable	7,892	7,482
	$ 37,604	$ 49,760

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the Royal Bank of Canada's prime rate and are repayable over periods ranging from one to fifteen years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack operators. The Corporation has also advanced funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

During the fiscal year, additional funds were advanced to a racetrack operator for which the repayment is conditional upon obtaining government approval for the expansion of this property. The borrower's requirement to repay the conditional loan is dependant upon the Corporation providing written notice, within five years of the date of opening of the site (i.e. by March 2011), that an expansion will proceed. As at March 31, 2008 $14,509,000 (2007 – $14,092,000) had been advanced and has been included in loans receivable based on the Corporation's assessment that governmental approval will be obtained and written notice will be provided to the borrower.

The Corporation's maximum remaining commitment as at March 31, 2008 is $15,691,000 to two racetrack operators of which $1,491,000 relates to the conditional loan referred to in the preceding paragraph.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Land	$ 137,343	$ –	$ 137,343	$ 137,008
Buildings	1,498,366	200,989	1,297,377	1,305,492
Furniture and fixtures	613,464	432,109	181,355	194,419
Leasehold improvements	569,797	321,483	248,314	275,453
Lottery gaming assets	119,968	82,886	37,082	59,479
Casino and racetrack slot operation gaming assets	617,587	390,210	227,377	252,016
Construction in progress and assets not in use	371,369	–	371,369	188,486
	$ 3,927,894	$ 1,427,677	$ 2,500,217	$ 2,412,353

Amortization for the year was $254,884,000 (2007 – $230,106,000). During the year, net interest of $490,000 (2007 – nil) was capitalized.

6. ASSET IMPAIRMENT CHARGES

As a result of the review of carrying values, as compared to undiscounted future net cash flows, as set out in Note 1k to the consolidated financial statements, in 2007, the Corporation recorded an impairment charge of $1,320,000 for certain Bingo revitalization pilot assets. Future cash flows are based on the Corporation's estimate of the operating results of these sites. The charge is included in General and Administration expenses in Note 14 to the consolidated financial statements.

7. ASSETS CONTRIBUTED TO CHIPPEWAS OF MNJIKANING

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Assets contributed to Chippewas of Mnjikaning	$ 32,337	$ 18,362	$ 13,975	$ 15,057

Amortization for the year was $1,082,000 (2007 – $1,082,000).

8. CASH AND SHORT-TERM INVESTMENTS HELD FOR FIRST NATIONS

	2008	2007
Segregated bank account, beginning of year	$ 173,113	$ 150,077
Distributions to the segregated bank account during the year	14,687	16,250
Interest earned during the year	7,955	6,786
Segregated bank account, end of year	195,755	173,113
Current distribution due to First Nations	12,293	–
	$ 208,048	$ 173,113
Less current portion of due to First Nations	47,374	–
	$ 160,674	$ 173,113

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into the Casino Rama Revenue Agreement (the Agreement) which entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the Agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Ontario First Nations Limited Partnership (OFNLP) and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. As at March 31, 2008, the Corporation has not received this direction and accordingly has retained 35 per cent of the net distributions in a segregated interest-bearing bank account. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach an agreement on a new revenue distribution formula, the Corporation is required to retain these funds. On June 10, 2008 the Corporation, pursuant to an Order of the Superior Court Justice of Ontario, released $47,374,000 from the segregated bank account to the OFNLP. The balance of funds will continue to be retained in a segregated interest-bearing bank account until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach agreement on a new revenue distribution formula.

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and OFNLP, among others, entered into a Gaming Revenue Sharing and Financial Agreement. The key terms of this new agreement are outlined in Note 9 f to the consolidated financial statements.

The payment related to the monthly distribution of the net revenue for March 2008 is included above as a current distribution due to First Nations.

9. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a. The Corporation is related to various other government agencies, ministries and Crown corporations. All transactions with these related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b. Under the terms of the development and operating agreements for each of the resort casinos and the Great Blue Heron Slot Machine Facility each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements. The operators of the casinos are as follows: Casino Niagara and Fallsview – Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation; Casino Rama – CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.; the Great Blue Heron Slot Machine Facility – Great Blue Heron Gaming Company; and Casino Windsor – Windsor Casino Limited (WCL), which is owned equally by Harrah's Entertainment, Inc. and Hilton Hotels Corporation, in each case through wholly-owned subsidiaries.

   On December 14, 2006, the Corporation entered into a new operating agreement with Caesars Entertainment Windsor Holding, Inc. (CEWH), one of the shareholders of WCL. Under the terms of the new operating agreement, commencing on the expiry or termination of the current operating agreement, CEWH will succeed WCL as the operator of Casino Windsor until July 31, 2020, subject to earlier termination of the new operating agreement by the Corporation or CEWH upon the occurrence of certain events. The terms of the new operating agreement are substantially similar to those contained in the current operating agreement.

   At each of the resort casinos, the operator is the employer of the employees working at that resort casino. All payroll and payroll-related costs are charged to the Corporation on a monthly basis, and are expensed in the Corporation's consolidated statement of income and other comprehensive income.

c. Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee, adjusted for inflation, relating to the provision of ongoing operating services. During the year, $5,616,000 (2007 – $5,514,000) was expensed. Other Chippewas of Mnjikaning charges amounting to $6,884,000 (2007 – $7,429,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a five-year lease renewal ending July 2011, for the rental of office space, $674,000 (2007 – $659,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year lease ending July 2011, an annual rental, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, $342,000 was expensed (2007 – $334,000).

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges noted above and is defined in the agreement for the period April 1, 2000 to July 31, 2011.

The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, $4,402,000 (2007 – $4,309,000) was expensed.

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by the Chippewas of Mnjikaning to Casino Rama with an annual rent payable of approximately $1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, $1,977,000 (2007 – $1,932,000) was expensed.

Under the terms of a Letter of Agreement entered into by the Corporation in January 2007 regarding the management and administration of leasehold improvement projects at Casino Rama, the Chippewas of Mnjikaning contract directly with the contractors selected by the Corporation. During the year, $3,696,000 (2007 – $3,369,000) was paid to the Chippewas of Mnjikaning under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

d. Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five per cent of the gross revenue of the Great Blue Heron Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, $4,498,000 (2007 – $4,836,000) was paid to the Mississaugas of Scugog Island First Nation.

e. Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, to a maximum contribution of $30,000,000. As at March 31, 2008, the Operator's fees, due to the Operator, included an Attractor fee accrual of $5,088,000 (2007 – $8,237,000).

f. Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation under the authority of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning First Nation.

Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues, as defined, of Casino Rama, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or wind up of Casino Rama.

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and the OFNLP entered into a Gaming Revenue Sharing and Financial Agreement (Agreement). The key terms of the Agreement, relevant to OLG, are as follows:

i) The Province of Ontario shall pay, or require the Corporation to pay, to the Ontario First Nations Limited Partnership, commencing with fiscal year 2012 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined. These payments will take the place of the net revenues that the OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement; and,

ii) The Chiefs of Ontario and the Ontario First Nations Limited Partnership shall, subject to acceptance by the Courts, discontinue the litigation related to the 20 per cent win contribution (Note 13a) and release her Majesty the Queen in Right of Ontario and the Corporation.

The Notice of Discontinuance of the litigation related to the 20 per cent win contribution was filed with the court on February 26, 2008.

10. LONG-TERM DEBT

	2008	2007
Niagara Fallsview Casino Resort loan	$ 214,747	$ 391,721
Casino Windsor non-revolving term loan	82,415	–
	297,162	391,721
Less current portion	191,381	176,974
	$ 105,781	$ 214,747

a. Niagara Fallsview Casino Resort loan

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for the purchase of the Niagara Fallsview Casino Resort from Falls Management Corporation. The initial loan balance of $794,000,000 plus interest is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

The principal loan repayments expected to be made over the next two years are approximately:

2009	$ 170,867
2010	43,880

b. Casino Windsor non-revolving term loan

In October 2007, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing a portion of the renovation and expansion of Casino Windsor and for financing a portion of the construction of the Windsor Clean Energy Centre (the Energy Centre). The Energy Centre was constructed to provide electricity, heating and cooling to the expanded Casino Windsor facilities. It is expected that the Energy Centre will also be able to provide excess electricity to the Windsor energy market. The loan agreement provided for a non-revolving term credit facility up to $250,000,000 for the project. On the earlier date of a) sixty days after the date of substantial completion of the project or b) August 15, 2008, the principal sum is to be converted to a five year term loan. A mandatory prepayment of the proceeds from the sale of the Energy Centre (net of the costs associated with the sale) is required if and when it is sold. The interest charged during construction is tied to the Province of Ontario's 90-day Treasury Bill rate. After construction is complete and the facility is opened to the public, the construction loan will convert into a 5 year term loan. The loan will bear interest at a rate equivalent to the Province of Ontario's five-year cost of borrowing plus 0.07 per cent.

During the year, total funds of $82,415,000 were advanced under the loan agreement. The principal loan repayments expected to be made in the upcoming fiscal year, based on the amounts advanced to March 31, 2008, are $20,514,000.

On March 25, 2008, the Province of Ontario introduced a bill which, if passed, would amend the *Ontario Lottery and Gaming Corporation Act, 1999*, to require the Corporation to finance certain of its capital expenditures with debt obtained from the Ontario Financing Authority. The approval of the Minister of Public Infrastructure Renewal and the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures.

11. FINANCIAL INSTRUMENTS

a. Financial Instruments

All of the Corporation's financial assets have been classified as either held-for-trading or loans and receivables. All of the Corporation's financial liabilities have been classified as other financial liabilities. Upon adoption, the Corporation determined that none of its financial assets are classified as held-to-maturity or available-for-sale and none of its financial liabilities are classified as held-for-trading.

The Corporation has determined the fair values of its financial instruments as follows:

i) The carrying amounts in the consolidated balance sheet of cash and cash equivalents, accounts receivable, restricted cash, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning and due to First Nations approximate fair values because of the short-term nature of these financial instruments.

ii) Loans and receivables are carried at amortized cost using the effective interest method.

iii) The fair value of each of the Corporation's long-term liabilities approximates its carrying value as the interest rates approximate current market rates.

iv) The fair value of the Corporation's forward pricing agreements is based on values quoted by the counterparties to the agreements.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

b. Credit Risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of accounts receivable and loans receivable. Accounts receivable include credit provided to retailers of lottery products and patrons of resort casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses, which when realized have been within the range of the Corporation's expectations. The carrying amount of these financial assets represents the maximum credit exposure.

c. Interest Rate Risk

The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

Loans receivable consist of loans to racetrack operators and municipalities and interest earned on these loans is tied to changes in the prime interest rate. The interest rate risk is limited to the interest earned on the assets and the underlying value of the asset is not at risk due to fluctuations in interest rates.

Long term debt currently consists of loan agreements entered into with the Ontario Financing Authority.

The non-revolving term credit facility, approved up to $250,000,000, is to finance a portion of the renovation and expansion of Casino Windsor which is currently in the construction stage. The long term debt is subject to interest rate risk as disclosed in Note 10b. The term loan agreement financed by the Ontario Financing Authority for the purchase of the Niagara Fallsview Casino Resort has a fixed interest rate for the entire term and is not currently subject to interest rate risk.

12. COMMITMENTS

a. Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2009	$ 22,801
2010	18,418
2011	12,094
2012	5,383
2013	266
	58,962
Thereafter	6,951
	$ 65,913

b. Suppliers

The Corporation has computer hardware maintenance agreements with future payments of approximately:

2009	$ 15,608
2010	13,462
2011	11,779
2012	10,973
2013	10,715
	62,537
Thereafter	3,510
	$ 66,047

c. Casino Windsor

In connection with the terms of an agreement between Casino Windsor and the City of Windsor, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998 in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

The Corporation is committed to a redevelopment project at Casino Windsor which includes the construction of a 22-storey hotel tower and a 5,000-seat entertainment centre along with the addition of new non-gaming amenities. The project is anticipated to be completed in June 2008. The Corporation currently estimates the total costs of this project to be in the range of $430,000,000 to $439,000,000. As at March 31, 2008, $379,500,000 (2007 – $216,482,000) has been expended. In December 2006, the Corporation entered into a trademark licence agreement with Caesars World, Inc. (Caesars), a wholly-owned indirect subsidiary of Harrah's. Under the terms of the trademark licence agreement, Casino Windsor has acquired the rights, systems and processes for the use of the Caesar's brand, and be re-branded as Caesars Windsor upon the completion of construction relating to the project. The estimated total cost of the re-branding project is $40,700,000 and includes costs associated with the implementation of 'Total Rewards', the Caesars customer loyalty program. As at March 31, 2008 $36,772,000 (2007 – $22,923,000) has been expended. The Caesars trademark license agreement will terminate on July 31, 2020 or on such earlier date as Caesars, or its subsidiary, ceases to be the operator of the Windsor casino complex. Caesars will be paid a license fee that will be calculated as a percentage of revenue and operating results, as defined, for the Windsor casino complex.

The Corporation is committed to the design, construction and commissioning of the Energy Centre on Casino Windsor property with total costs currently estimated to be in the range of $65,000,000 to $70,000,000. As at March 31, 2008, $50,555,000 (2007 – $11,899,000) has been expended.

d. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls (the City), the Corporation agreed to provide the City with payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000 per annum thereafter, adjusted for Consumer Price Index as defined in the agreement.

e. Casinos and Slots at Racetracks

The Corporation is committed to the establishment of an additional Slots at Racetrack operation in eastern Ontario at an estimated cost of $18,940,000 and the expansion of an existing Slots at Racetrack operations in the Province at a total estimated cost of $46,264,000. In addition, the Corporation has committed to the construction of a water treatment facility at a Casino located in eastern Ontario. The Corporation's share of these construction costs is estimated at $5,000,000.

13. CONTINGENCIES

a. In November 2003, the Ontario First Nations Limited Partnership (the Plaintiff) delivered a statement of claim against the Corporation, Her Majesty the Queen in Right of Ontario and the Chippewas of Mnjikaning First Nation, as defendant parties. The statement of claim alleges that the Province of Ontario wrongfully withheld 20 per cent of the gross revenues from Casino Rama operations. The Plaintiff claims damages in an amount equivalent to 20 per cent of the gross revenues of Casino Rama from the time that it opened for operations to the date of judgment plus damages in the amount of $300,000,000. On February 19, 2008, an agreement was signed with the Plaintiff which provided for a full and final mutual release of this litigation, as described in Note 9f to the consolidated financial statements. The Notice of Discontinuance of the litigation was filed with the court on February 26, 2008.

b. In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all property, plant and equipment purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of property, plant and equipment be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all property, plant and equipment purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. If the Plaintiff was successful in this claim, reimbursement of retail sales tax that has been paid or accrued in respect of purchases of property, plant and equipment would be made by her Majesty the Queen in Right of Ontario, not by the Corporation. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

c. The Corporation has signed four Bingo Centre Service Provider Agreements (Service Providers) for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston, and Sudbury, Ontario. The contracts provide that, in the event of notification of termination of the Bingo Revitalization Project pilot by the Corporation, or if the Service Providers and the Corporation mutually agree to not renew or extend the Agreement, the Corporation will be required to pay the Service Providers an amount not to exceed $3,013,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in these consolidated financial statements.

d. On April 27, 2007, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim, related to a class action for general damages of $1,000,000,000 and punitive damages of $100,000,000. The statement of claim alleges the Corporation was negligent in the operation and management of its lottery business and that it breached fiduciary and other duties. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

e. On June 10, 2008, the Corporation was served with a statement of claim, related to a class action for general damages and punitive damages totaling $3,500,000,000. The statement of claim alleges that the Corporation was negligent in its duty of care to prohibit self-excluded patrons from gaming at the Corporation's gaming sites. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

f. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its consolidated financial statements. Estimates, where appropriate, have been included in these consolidated financial statements, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of income and other comprehensive income in the period in which the settlement occurs.

14. SEGMENTED INFORMATION

2008	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$ 2,773,125	$ –	$ –	$ 2,773,125
Slots	–	1,025,188	2,040,137	3,065,325
Tables	–	401,380	54,593	455,973
Non-gaming	–	245,087	28,874	273,961
	2,773,125	1,671,655	2,123,604	6,568,384
Less promotional allowances	–	276,336	72,773	349,109
	2,773,125	**1,395,319**	**2,050,831**	**6,219,275**
Operating expenses				
Non-gaming	–	236,352	31,613	267,965
Gaming and lottery operations	122,090	306,537	278,623	707,250
Lottery prizes	1,566,091	–	–	1,566,091
Commissions	203,254	–	413,431	616,685
Marketing and promotion	58,619	150,610	76,108	285,337
Operators' fees (Note 9b)	–	63,145	4,929	68,074
Amortization	33,211	137,679	88,617	259,507
General and administration (Notes 6 and 16)	42,390	104,077	68,703	215,170
Facilities	8,129	145,150	81,424	234,703
Win contribution (Note 17)	–	285,304	17,939	303,243
Payments to Government of Canada (Note 18)	56,851	41,732	34,212	132,795
	2,090,635	**1,470,586**	**1,095,599**	**4,656,820**
Income before the undernoted	**682,490**	**(75,267)**	**955,232**	**1,562,455**
Interest and other income	5,678	23,051	19,412	48,141
Interest on long-term debt	(976)	(13,228)	–	(14,204)
Foreign exchange gain	37	9,545	1,457	11,039
	4,739	**19,368**	**20,869**	**44,976**
Net income (loss)	**$ 687,229**	**$ (55,899)**	**$ 976,101**	**$1,607,431**

2007	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$ 2,655,607	$ –	$ –	$ 2,655,607
Slots	–	1,062,784	1,956,998	3,019,782
Tables	–	426,094	55,437	481,531
Non-gaming	–	240,684	28,593	269,277
	2,655,607	1,729,562	2,041,028	6,426,197
Less promotional allowances	–	265,886	75,518	341,404
	2,655,607	**1,463,676**	**1,965,510**	**6,084,793**
Operating expenses				
Non-gaming	–	224,678	30,872	255,550
Gaming and lottery operations	101,858	325,913	283,393	711,164
Lottery prizes	1,444,145	–	–	1,444,145
Commissions	192,670	–	392,924	585,594
Marketing and promotion	51,998	143,980	72,894	268,872
Operators' fees (Note 9b)	–	64,500	5,404	69,904
Amortization	30,449	136,669	71,312	238,430
General and administration (Notes 6 and 16)	34,374	108,973	64,341	207,688
Facilities	7,692	145,408	74,416	227,516
Win contribution (Note 17)	–	297,663	19,266	316,929
Payments to Government of Canada (Note 18)	56,558	41,484	28,933	126,975
	1,919,744	**1,489,268**	**1,043,755**	**4,452,767**
Income before the undernoted	**735,863**	**(25,592)**	**921,755**	**1,632,026**
Interest and other income	5,175	22,795	18,205	46,175
Interest on long-term debt	–	(26,864)	–	(26,864)
Foreign exchange gain	3	13,361	3,420	16,784
	5,178	**9,292**	**21,625**	**36,095**
Net income (loss)	**$ 741,041**	**$ (16,300)**	**$ 943,380**	**$1,668,121**

15. POST EMPLOYMENT PLANS

The Corporation contributes pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included in the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation treats these post-employment benefits as defined contributions and has no additional liability for these future costs. The Corporation's contribution and pension expense during the year was $17,926,000 (2007 – $17,019,000).

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the year amounted to $22,452,000 (2007 – $22,670,000).

16. FUTURE BENEFIT COSTS

As a Schedule 2 employer under the *Workplace Safety and Insurance* Act, 1997, (Act) the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process, administers, and processes claims payments on the Corporation's behalf. CICA Handbook Section 3461, Employee Future Benefits, requires that WSIB liabilities for self-insured employers be reported on the financial statements.

In fiscal 2008, the cost of claim payments were $3,586,000 (2007 – $4,679,000) and is included in General and Administration expenses in the Consolidated Statement of Income and Other Comprehensive Income. The accrued future benefit costs as at March 31, 2008 is $28,339,000 (2007 – $19,387,000) of which $2,267,000 (2007 – $1,485,000) is classified as a current liability. The accrued benefit costs are based on actuarial assumptions.

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements that self-insured employers are.

17. WIN CONTRIBUTION

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from resort casinos and the Great Blue Heron Casino Slot Machine Facility.

18. PAYMENTS TO GOVERNMENT OF CANADA

The Corporation made the following payments to the Government of Canada:

	2008	2007
Payments on behalf of the Province of Ontario	$ 24,921	$ 24,748
Goods and Services Tax	107,874	102,227
	$ 132,795	$ 126,975

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (*GST/HST*) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 12 per cent (10 per cent effective January 1, 2008) tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

19. COMPARATIVE AMOUNTS

Certain prior year amounts have been reclassified to conform with current year consolidated financial statement presentation.

These reclassifications include a modification to the presentation of equity in the Consolidated Balance Sheet. Amounts previously reported as Due to Province of Ontario and Equity in Property, Plant and Equipment have been combined and are now reported as Retained Earnings and Contributed Surplus. In addition, the Consolidated Statement of Changes in Due to Province of Ontario and Consolidated Statement of Equity in Property, Plant and Equipment have been removed from the Consolidated Financial Statements and replaced with a Consolidated Statement of Retained Earnings and a Consolidated Statement of Contributed Surplus.

OLG achieved consolidated gross revenues of $6.2 billion. Total net income of $1.6 billion is $61 million, or four per cent lower than last year, primarily due to higher lottery prizes, commissions and amortization costs, combined with the impact of a growing net loss at the Resort Casino properties, a result of reduced revenues.

OLG manages its operations in three distinct business divisions: the Lotteries and Bingo Division, which is responsible for online and INSTANT lottery games, four electronic bingo pilot sites, and Big LINK Bingo; the Casinos & Slots Division, which is responsible for the operation of 23 gaming sites including five OLG casinos, the slots facility at Great Blue Heron Casino and 17 slots at racetracks operations; and the Resort Casinos division, which oversees the operations of four resort casinos in Ontario.

7. BUSINESS SEGMENT REPORTS

A. Lotteries and Bingo

Lotteries and Bingo
(in $thousands)

	Fiscal 2008	Fiscal 2007	Variance $	Variance %
Revenues				
Gaming revenues	$ 2,773,125	2,655,607	117,518	4%
	$2,773,125	**2,655,607**	**117,518**	**4%**
Operating Expenses				
Gaming and lottery operations	122,090	101,858	(20,232)	-20%
Lottery prizes	1,566,091	1,444,145	(121,946)	-8%
Commissions	203,254	192,670	(10,584)	-5%
Marketing and promotion	58,619	51,998	(6,621)	-13%
Amortization	33,211	30,449	(2,762)	-9%
General and administration	42,390	34,374	(8,016)	-23%
Facilities	8,129	7,692	(437)	-6%
Payments to Government of Canada	56,851	56,558	(293)	-1%
	$2,090,635	**1,919,744**	**(170,891)**	**-9%**
Income before the undernoted	**$ 682,490**	**735,863**	**(53,373)**	**-7%**
Interest and other income	$ 5,678	5,175	503	10%
Interest on long-term debt	(976)	–	(976)	-100%
Foreign exchange gain	37	3	34	1133%
	$ 4,739	**5,178**	**(439)**	**-8%**
Net income (loss)	**$ 687,229**	**741,041**	**(53,812)**	**-7%**

A1. Lotteries and Bingo Revenue

Lotteries and Bingo revenues contributed the largest portion of OLG's revenue in fiscal 2008 (45 per cent), with revenues of $2.8 billion – $118 million or four per cent ahead of last year. The growth is attributable primarily to higher LOTTO 6/49 sales and INSTANT product sales.

LOTTO 6/49 revenue was $122 million or 16 per cent higher than last year as a result of three bonus jackpot sequences, compared to only one during the previous year. Partially offsetting LOTTO 6/49's strong performance, LOTTO SUPER 7 and PAYDAY revenues were respectively $80 million and $11 million below last year. The LOTTO SUPER 7 decline is attributed to fewer bonus jackpot sequences – one compared to two in the previous year, while decreased marketing support and higher LOTTO 6/49 jackpots were the major contributors to lower PAYDAY sales.

Bingo revenue dropped by $5 million compared to the previous year, primarily due to declining Big LINK Bingo revenues and a continued downturn of the Bingo industry as several traditional bingo halls ceased operation.

Lottery Sales and Prizes by Game

Product Groupings	Number of Games 2008	Number of Games 2007	Sales ($ Millions) 2008	Sales ($ Millions) 2007	Percentage of Total Sales 2008	Percentage of Total Sales 2007	Prizes ($ Millions) 2008	Prizes ($ Millions) 2007
On-Line Games	12	11	1,671.6	1,629.4	60.3%	61.4%	865.0	801.7
Sports Games	6	6	253.5	257.8	9.1%	9.7%	157.9	158.0
Instant Games	86	82	792.6	708.1	28.6%	26.7%	505.4	443.6
Bingo Games	3	3	55.3	60.3	2.0%	2.2%	37.8	40.8
Totals	**107**	**102**	**$2,773.0**	**$2,655.6**	**100.0%**	**100.0%**	**$1,566.1**	**$1,444.1**

The number of lottery games increased this year over the previous year mainly due to the release of more INSTANT games. This had a favourable effect on sales, which were $117 million higher than in fiscal 2007. INSTANT games contributed $85 million to the variance and contributed to INSTANT games increased percentage of total sales, primarily due to the INSTANT Rejuvenation Strategy, which improved payouts and enhanced games and merchandising in an effort to restore growth in the INSTANT category.

The strategy also resulted in the increase of $62 million in INSTANT prizes. Online games contributed $42 million to the favourable variance in revenues due mainly to LOTTO 6/49's bonus sequence draws during 2008. A new on-line game, MILLIONAIRE RAFFLE, was launched in fiscal 2008. On-line games prizes also increased in response to guaranteed prizing, with all spring bonus sequence jackpots being won.

A2. Lotteries and Bingo Net Income

Net income from the Lotteries and Bingo Division was $687 million, $54 million or seven per cent lower than the previous year, as higher prize payouts more than offset increased revenue. Lotteries and Bingo prize expenses increased by $122 million to $2 billion, a result of higher sales and a higher prize payout percentage. Lottery prize expenses vary according to the mix of product revenues and jackpot levels achieved. Additional prize funding for LOTTO 6/49 was required this fiscal year to support a guaranteed jackpot bonus sequence in the spring. All seven of the jackpots, beginning with a $25 million draw and ending with a $40 million draw, were won requiring incremental prize funding totalling $60 million. This is over and above the amount that would normally be required to fund these jackpots.

Increases in other operating expenses also contributed to a decline in net income, including gaming and lottery operations costs, marketing and promotion costs, and general and administrative costs. Gaming and lottery operations costs increased by $20 million, due in part to AGCO regulatory costs. Commissions increased by $11 million as a result of higher sales. Marketing and promotion costs increased by $7 million over the previous year as a result of the 'Sign Your Ticket' and additional public awareness and marketing campaigns launched in conjunction with the prize integrity program. General and administrative costs increased by $8 million as a result of higher operating costs related to bingo.

A3. Lotteries and Bingo Financial Key Performance Indicators

The Corporation continues to focus on maximizing operational efficiencies and profits. In achieving these ends, financial key performance indicators (KPIs) are useful tools for assessing critical expenses relative to revenue.

Below are the Lotteries and Bingo financial KPIs for fiscal 2008 compared to fiscal 2007.

	Fiscal 2008	Fiscal 2007
Adjusted EBIDA margin*	59.4%	63.5%
Marketing as a percentage of gaming revenue**	4.1%	4.1%
Payroll as a percentage of total revenue***	2.3%	2.0%

* The Adjusted EBIDA (please refer to Section 5 – Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, depreciation and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry.

** Marketing expenses include promotions, advertising and corporate marketing. These expenses are divided by gaming revenue. Gaming revenue includes revenue from lottery and bingo games, but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 5 – Disclosures for Reconciliation of Total Revenue) Both marketing and payroll indicators represent key cost drivers of the Corporation.

The Adjusted EBIDA margin for Lotteries and Bingo for fiscal 2008 decreased as compared to last year due to higher prizes and commissions. Marketing as a percentage of gaming revenue for Lotteries and Bingo was the same as last year. Payroll as a percentage of total revenue for Lotteries and Bingo increased slightly from last year, as a result of increased hiring to meet goals in prize integrity.

A4. Lotteries and Bingo Trends

Total lottery sales were a record $2,718 million in fiscal 2008, an increase of $123 million or five per cent more than fiscal 2007. This increase includes an increase of $42 million or three per cent in on-line product sales. These gains were however offset by decreased Sports product sales, which dropped $4 million or two per cent compared to fiscal 2007. This decline was due in part to the FIFA World Cup of Soccer, an event which occurs once every four years. This event occurred in fiscal 2007 and will not occur again until the spring of 2010.

Bingo gaming revenues of $55 million represent a decrease of $5 million or eight per cent from the previous year, including sales from eBingo activities, which dropped $173 thousand or 0.4 per cent. The decrease reflects a full year of operation under the *Smoke Free Ontario Act*, enacted June 1, 2006, compared to only 10 months in the previous fiscal year. Bingo hall closures contributed to the dramatic decrease in sales for Big LINK Bingo, down $5 million (31 per cent) as a result of bingo hall closures and bankruptcies. Nonetheless, electronic bingo revenues stabilized this year and by year-end had begun to increase slightly when compared to non-smoking periods year to year.

A5. Lotteries and Bingo Risks

Potential loss of public confidence was the single largest risk that the Lotteries and Bingo Division faced in the past year and the Division took significant steps to mitigate this risk through its implementation of the Ombudsman's and KPMG's recommendations during this fiscal year. The public's perception that "lotteries in Ontario are run openly and honestly," which had measured 81 per cent in September 2006, prior to broadcast of CBC's *the fifth estate* story on suspected insider wins, fell to 51 per cent in March 2007. Following OLG's moves to address these concerns and fulfill all recommendations, public confidence is returning – with positive responses to the same question increasing to 65 per cent by March 2008. As the organization moves forward into fiscal 2009, it continues to shape its culture into one that places the customer first and where decisions, processes and operations are guided by the need to ensure customer service and protection.

Any erosion of public confidence can potentially impact revenues. Rebuilding and confidence-building initiatives can introduce new costs and present risks to profitability. Such threats were partially mitigated by record lottery sales resulting from the continued implementation of the INSTANT Rejuvenation Strategy, the introduction of new venues, such as Wal-Mart and The Home Depot stores, and promotions related to LOTTO 6/49's 25th anniversary.

For Bingo activity, the key risk is the continued closure of halls due to waning public interest. With fewer halls participating, gaming revenues do not support fixed cost initiatives. To mitigate this, Big LINK Bingo continues to manage or eliminate costs. For fiscal 2009, OLG will not renew the satellite show component of Big LINK Bingo in its efforts to substantially reduce costs. As a result of the implementation of communication and marketing tactics to mitigate consumer concerns, there has been no impact on revenue.

B. OLG Casinos and Slots at Racetracks

(In $thousands)

	Fiscal 2008	Fiscal 2007	Variance $	Variance %
Revenues				
Gaming revenues	$ 2,094,730	$ 2,012,435	82,295	4%
Non-gaming revenues	28,874	28,593	281	1%
	$ 2,123,604	2,041,028	82,576	4%
Less: promotional allowance	72,773	75,518	2,745	4%
	$2,050,831	**1,965,510**	**85,321**	**4%**
Operating Expenses				
Non-gaming	31,613	30,872	(741)	-2%
Gaming and lottery operations	278,623	283,393	4,770	2%
Commissions	413,431	392,924	(20,507)	-5%
Marketing and promotion	76,108	72,894	(3,214)	-4%
Operators' fees	4,929	5,404	475	9%
Amortization	88,617	71,312	(17,305)	-24%
General and administration	68,703	64,341	(4,362)	-7%
Facilities	81,424	74,416	(7,008)	-9%
Win contribution	17,939	19,266	1,327	7%
Payments to Government of Canada	34,212	28,933	(5,279)	-18%
	$1,095,599	**1,043,755**	**(51,844)**	**-5%**
Income before the undernoted	**$ 955,232**	**921,755**	**33,477**	**4%**
Interest and other income	$ 19,412	18,205	1,207	7%
Foreign exchange gain	1,457	3,420	(1,963)	-57%
	$ 20,869	**21,625**	**(756)**	**-3%**
Net income (loss)	**$ 976,101**	**943,380**	**32,721**	**3%**

B1. OLG Casinos and Slots at Racetracks Revenues

Revenue for OLG Casinos and Slots at Racetracks, including the slot operations at the Great Blue Heron Casino, totalled $2.1 billion this fiscal year, which was $85 million higher than the previous year. OLG Slots at Woodbine contributed $55 million to increased revenue this fiscal year, as an additional 73 slot machines were installed at the site. Also, positive results from the Slots Refresh initiative and extended hours offered at a number of gaming sites, beginning in May 2007, contributed to the year-over-year increase.

Partially offsetting revenue increases at these sites, the strong Canadian dollar, increasing competition and more stringent border-crossing procedures have contributed to a revenue decline at border properties of approximately eight per cent, when compared to fiscal 2007. At Slots at Fort Erie, these factors and increasing US competition resulted in a 27 per cent revenue decline compared to fiscal 2007. A labour disruption and a full year of non-smoking at Great Blue Heron Casino Slot Machine Facility resulted in a seven per cent decline in revenue when compared to fiscal 2007.

From Casinos and Slots at Racetracks revenues this year, $78 million was paid directly to our host communities and $335 million was paid to the racetrack site holders and their horse people. Payments to racetracks and horse people are a major economic stimulus for the overall agricultural industry in Ontario, with spin-off benefits to farmers supplying feed, stabling and care for horses.

OLG Casinos – Economic Impact of Operations as at March 31, 2008

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Revenue to Municipality* ($ thousands)	Number of Patrons (thousands)	Number of Slots	Gaming Tables
OLG Casino Brantford	Nov 17, 1999	941	$ 37,961	$ 3,679	1,557	514	54
Great Blue Heron Casino Slots Facility	May 3, 2000	***	***	****	1,321**	545	*****
OLG Casino Point Edward Casino	Apr 18, 2000	489	21,516	1,975	627	492	30
OLG Casino Sault Ste. Marie	May 19, 1999	330	15,257	1,524	762	441	14
OLG Casino Thousand Islands	Jun 20, 2002	439	19,217	3,289	989	516	26
OLG Casino Thunder Bay	Aug 28, 2000	380	17,016	2,530	997	452	15
Totals		2,909	$ 126,224	$ 12,997	6,253	2,960	153

Note: The Great Blue Heron Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Cavino, Austria, Fantasy Gaming and Sonco Gaming. The OLG is responsible for the management of the slot facility only. The Great Blue Heron Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (#34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations. The Ontario Government receives 20% of gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Casino.

* 5% of revenue from slot machines up to 450 machines and 2% of revenue from slots over 450.

** Great Blue Heron patron figures are based on entire facility.

*** 250 employees of Great Blue Heron Gaming Company work in the slot facility. Annual payroll is $12.8 million.

**** As the host community of the slot machines at Great Blue Heron Casino, the Mississaugas receive 5% of the revenue from the slot machines.

***** While Great Blue Heron Casino offers table games, OLG management and reporting is limited to the slot facility.

OLG Slots – Economic Impact of Operations as of March 31, 2008

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Number of Patrons (thousands)	Number of Slots	Revenue to Tracks* ($ thousands)	Revenue to Horse People* ($ thousands)	Revenue to Municipality* ($ thousands)
Ajax Downs	Feb 28, 2006	241	$ 9,995	1,143	250	$ 10,045	$ 10,045	$ 5,023
Clinton Raceway	Aug 24, 2000	79	3,812	183	108	1,293	1,293	646
Dresden Raceway	Apr 18, 2001	86	4,049	191	112	1,403	1,403	702
Flamboro Downs	Oct 11, 2000	246	10,882	1,375	801	12,402	12,402	4,571
Fort Erie Race Track	Sep 9, 1999	272	13,353	943	1,094	4,428	4,428	1,434
Georgian Downs	Nov 27, 2001	204	8,933	1,189	455	9,627	9,627	4,782
Grand River Raceway	Dec 4, 2003	146	5,779	567	200	3,988	3,988	1,994
Hanover Raceway	Feb 19, 2001	86	4,014	295	110	1,965	1,965	983
Hiawatha Horse Park	May 8,1999	160	7,553	596	452	3,278	3,278	1,634
Kawartha Downs	Nov 22, 1999	164	7,891	802	450	6,725	6,725	3,362
Mohawk Racetrack	Aug 10, 1999	239	11,579	1,203	855	16,066	16,066	5,741
Rideau Carleton Raceway	Feb 16, 2000	278	13,521	1,590	1,250	13,005	13,005	4,007
Sudbury Downs	Nov 26, 1999	140	6,944	529	351	4,739	4,739	2,369
Western Fair Raceway	Sep 28, 1999	314	13,484	1,143	750	10,935	10,935	4,155
Windsor Raceway	Dec 16, 1998	229	10,998	643	750	4,602	4,602	1,749
Woodbine Racetrack	Mar 27, 2000	683	30,084	4,459	2,009	60,984	60,984	16,305
Woodstock Raceway	Jun 20, 2001	85	4,124	299	112	2,205	2,205	1,102
Totals		3,652	$ 166,995	17,150	10,109	$ 167,690	$ 167,690	$ 60,559

* Tracks and horse people each receive 10% of revenue from slots; municipalities receive 5% of revenue from slots up to 450 machines and 2% of revenue from slot machines over 450.

OLG Casinos and Slots at Racetracks Net Income

Net income for OLG Casinos and Slots at Racetracks was $976 million – $33 million or 3 per cent above last year due to higher revenues, but was partially offset by higher amortization and commissions paid to municipalities, racetracks, horsepeople and Mississaugas of Scugog Island First Nation. Commissions were $21 million above last year, a direct result of the higher revenue level in fiscal 2008. Amortization exceeded last year by $17 million. The increase in amortization is primarily attributable to OLG's Slot Refresh program, which replaced older, underperforming slot machines with new and more expensive ones in all facilities during fiscal 2008.

Below are the Casinos and Slots at Racetracks financial KPIs for fiscal 2008 compared to fiscal 2007.

	Fiscal 2008	Fiscal 2007
Adjusted EBIDA margin*	50.7%	50.3%
Marketing as a percentage of gaming revenue**	6.0%	6.3%
Payroll as a percentage of total revenue***	14.3%	15.1%

* The Adjusted EBIDA (please refer to Section 5 – Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, win contribution, depreciation and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry. OLG adjusts EBIDA, by adding back win contribution, to ensure comparability of profitability margins across divisions and with other gaming organizations.

** Marketing expenses include promotional allowances (including the retail value of accommodation, food and beverage and other goods provided on a complimentary basis to patrons), promotions, advertising and corporate marketing. These expenses are divided by gaming revenue. Gaming revenue includes revenue from slot and table gaming operations but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 5 – Disclosures for Reconciliation of Total Revenue). Both marketing and payroll indicators represent key cost drivers of the Corporation.

The Adjusted EBIDA margin for Casinos and Slots at Racetracks was slightly above last year, as the increase in revenue was significantly offset by the increase in operating expenses. Marketing expenses as a percentage of gaming revenue for Casinos and Slots at Racetracks was slightly lower than in the prior year, due to higher gaming revenue. Payroll as a percentage of total revenue was lower due to a combination of higher revenues and lower payroll expenses, due to improved staffing efficiencies.

The Slot Refresh initiative was the most significant contributor to revenue growth at Casinos and Slots at Racetracks in fiscal 2008. At Woodbine, the introduction of 73 additional slot machines also boosted revenue. Revenue at Woodbine, Ajax and Rideau Carleton grew by 10 per cent compared to the prior year.

Slots at Ajax continues to generate the highest win per unit per day, of $1,098, when compared to all other OLG gaming sites, while Slots at Rideau Carleton has sustained incremental revenue growth in fiscal 2008, mainly due to Slot Refresh and an increased focus on group sales. Strong economic conditions prevail in the Sudbury and London areas, allowing sustained growth.

The exceptions to the overall growth pattern were Brantford Casino, which was slightly below the previous year, Great Blue Heron Slot Machine Facility, where a labour disruption negatively affected revenues, and our six border properties, which suffered from general declines in US tourism.

The OLG Casinos and Slots at Racetracks primarily face two key challenges: business interruption and the impact of the strong Canadian dollar combined with increased US competition. These two risks significantly affect OLG's operations.

Business interruption consists of both labor and business disruptions. In order to mitigate the chance of potential labor disruption, the Gaming Division has embarked on several personnel initiatives designed to engage employees and bring forth their concerns. These corporate initiatives include but are not limited to: Employee Focus Groups, Employee Engagement Surveys and OLG Purpose, Vision and Values training. To address other business interruptions, Business Continuity Plans have been developed and implemented at OLG gaming sites. The objective is to have the ability to resume operations within a reasonable period of time after an interruption.

The strong Canadian dollar combined with stringent US border crossing issues and increased US competition have posed significant challenges to the Gaming Division in fiscal 2008. These challenges have contributed to the 8 percent decline in gaming revenue compared to fiscal 2007 for border properties. These factors have particularly affected Slots at Fort Erie, where revenues declined over 28 percent compared to last fiscal. The Gaming Division's mitigation plans to address these external factors focus on Customer Service Excellence. This is the cornerstone of the Gaming Division's strategy for maintaining market share in an increasingly competitive market. Ongoing service and product enhancements, completion of the Gaming Facilities Design Criteria and campaigns based on market research will also help drive profit.

C. Resort Casinos

Resort Casinos
(in $thousands)

	Fiscal 2008	Fiscal 2007	Variance $	Variance %
Revenues				
Gaming revenues	$ 1,426,568	$ 1,488,878	$ (62,310)	-4%
Non-gaming revenues	245,087	240,684	4,403	2%
	1,671,655	1,729,562	(57,907)	-3%
Less: promotional allowance	276,336	265,886	(10,450)	-4%
	1,395,319	**1,463,676**	**(68,357)**	**-5%**
Operating Expenses				
Non-gaming	236,352	224,678	(11,674)	-5%
Gaming and lottery operations	306,537	325,913	19,376	6%
Marketing and promotion	150,610	143,980	(6,630)	-5%
Operators' fees	63,145	64,500	1,355	2%
Amortization	137,679	136,669	(1,010)	-1%
General and administration	104,077	108,973	4,896	4%
Facilities	145,150	145,408	258	0%
Win contribution	285,304	297,663	12,359	4%
Payments to Government of Canada	41,732	41,484	(248)	-1%
	1,470,586	**1,489,268**	**18,682**	**1%**
Income before the undernoted	**(75,267)**	**(25,592)**	**(49,675)**	**-194%**
Interest and other income	23,051	22,795	256	1%
Interest on long-term debt	(13,228)	(26,864)	13,636	51%
Foreign exchange gain	9,545	13,361	(3,816)	-29%
	19,368	**9,292**	**10,076**	**108%**
Net income (loss)	**$ (55,899)**	**$ (16,300)**	**$ (39,599)**	**-243%**

C1. Resort Casinos Revenue

Total Resort Casino revenue in fiscal 2008 was $1.4 billion, a decrease of $68 million compared to the previous year. Fiscal 2008 is the second consecutive year that Resort Casino revenues have declined, following two years of consecutive increases, due in part to the opening of Niagara Fallsview Casino Resort in June 2004. All three border facilities – Casino Niagara, Fallsview and Casino Windsor – have a large US patron base, thereby making them vulnerable to a strengthening Canadian dollar and increased competition from US gaming facilities.

C2. Resort Casinos Net Income (Net Loss)

This year's net loss of $56 million was $40 million higher than last year. Casino Windsor was the largest contributor to this variance, finishing $32 million lower than the previous year.

Lower revenues are the largest single contributor to the increase in net loss and reflect the downturn in cross-border tourism.

The strong Canadian dollar and increased US competition were particularly significant factors at Casino Niagara, Fallsview and Casino Windsor. The decline at Casino Rama was attributed to increased competition both within the province, from OLG properties such as Woodbine, and from neighbouring US properties.

Operating expenses decreased by $19 million from last year. Lower gaming operational costs and win contribution contributed to this decline (a direct result of lower revenues). The win contribution payment made to the Province of Ontario is included as part of operating costs. The amount remitted is equivalent to 20 per cent of gaming revenue. This inclusion of win contribution as an operating cost results in a decrease to the net income or increase to the net loss of each property. Management assesses the profitability of each property without the inclusion of net win as an operating cost, as this represents a distribution to the shareholder.

Under the terms of the operating agreements for all Resort Casinos, each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin – both as defined in each of the related operating agreements. Compensation based, in part, on net operating margins ensures the operators participate in both profits and losses.

C3. Resort Casinos Financial Key Performance Indicators

Below are the Resort Casino financial key performance indicators (KPIs) for fiscal 2008 compared to fiscal 2007.

	Fiscal 2008	Fiscal 2007
Adjusted EBIDA margin*	21.6%	25.3%
Marketing as a percentage of gaming revenue**	29.0%	26.9%
Payroll as a percentage of total revenue***	31.6%	31.1%

* The Adjusted EBIDA (please refer to Section 5 – Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, win contribution, depreciations and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry. OLG adjusts EBIDA by adding back win contribution to ensure comparability of profitability margins across divisions and with other gaming organizations.

** Marketing expenses include promotional allowances (including the retail value of accommodation, food and beverage and other goods provided on a complimentary basis to patrons), promotions, advertising and corporate marketing. These expenses are divided by gaming revenue. Gaming revenue includes revenue from slot and table gaming operations but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 5 – Disclosures for Reconciliation of Total Revenue) Both marketing and payroll indicators represent key cost drivers of the Corporation.

The Adjusted EBIDA margin for the Resort Casinos Division was less than last year as revenue decreases negatively impacted the KPI. Resort Casinos' marketing as a percentage of gaming revenue was higher than last year due to the properties' increased spend, as part of the strategy to mitigate the impact of the stronger Canadian dollar and increased competition. Operating costs increased over the previous year primarily in the marketing and promotional allowances categories as the properties implemented different strategies to attract lost patronage from US competitors. Such strategies included the new Total Rewards program at Casino Windsor, as well as increased entertainment offerings and promotional hotel allowances at Casino Rama and the Niagara properties. While staffing adjustments made in response to lower patronage did result in savings of $14 million, payroll as a percentage of total revenue at Resort Casinos increased when compared to the previous year due to the decrease in revenues and OLG's strategic priority of maintaining and improving customer service.

In addition to OLG's assessment of the KPIs listed above, ongoing market share analysis is undertaken at Casino Windsor and the Niagara casinos. Casino Windsor's market share has declined since 1999, as three Detroit-based casinos opened during the 17 months between July 1999 and November 2000. Then in fiscal 2007, for the first time in its history, the Detroit/Windsor gaming market declined 1.2 per cent as a result of a downturn in the Michigan automotive industry and higher gas prices impacting the spending habits of US patrons. The Niagara casinos compete for market share with a total of five New York state facilities, which collectively offer approximately 9,100 slot machines and video lottery terminals. At the regional level, four 'racino' slot facilities opened last fiscal year in Pennsylvania, offering approximately 7,950 slot machines to patrons.

C.2 Resort Casinos Results

Casino Windsor's revenues trailed the prior year by $39 million as competitors in the Detroit market also added more amenities and parking. MotorCity Casino began unveiling its additional amenities and expanded gaming floor in June 2007 and in November 2007 opened its new Hotel Tower. In October 2007, MGM Grand opened its new US$800 million casino.

A major corporate initiative aimed at bringing back thousands of American customers is the Caesars Windsor project, which will transform the resort casino in Windsor, making it one of the Windsor-Detroit area's most significant attractions and a tourist destination.

Casino Niagara and Fallsview achieved combined net revenues of $630 million. This was $13 million below last year. Marketing initiatives have met with some success at Fallsview, as revenues increased slightly over the prior year, although Casino Niagara's revenues continued to decline.

Casino Rama's revenue also declined this year, with revenues $16 million below fiscal 2007. This is attributed primarily to increased competition both within the province, from OLG properties such as Woodbine, and from neighbouring US properties.

Nonetheless, Casino Rama retains its popularity through its reputation for world-class entertainment and sporting events, and marketing and promotional campaigns have helped to counter the effects of increased competition.

C.3 Resort Casinos Risks

The key challenges and risks to business at OLG's Resort Casinos are those faced by all tourism-based businesses in Ontario. OLG's Resort Casinos worked to reduce the negative impact of these factors, through cost containment, new promotional initiatives, high-value amenities and a full range of top-notch entertainment. Major investment initiatives such as the Caesars Windsor expansion and rebranding represent long-term strategies for OLG's Resort Casinos, but they will not immediately show a profit as the amortized costs are expected to exceed increased revenue resulting in loss during the coming fiscal year.

Other improvements will be achieved through the ongoing review of the effectiveness of OLG's responsible gaming initiatives. OLG is committed to innovative new technologies, such as biometrics, to deliver the best possible services for player exclusion and other responsible gaming programs.

2. LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations for the fiscal year ended March 31, 2008 was $1.9 billion, $73 million lower than the previous year primarily due to higher commissions, amortization costs and lottery prizes.

Cash derived from (used in):	2008 ($ millions)	2007 ($ millions)
Operations	$ 1,872	$ 1,945
Financing	(1,519)	(1,659)
Investing	(400)	(199)
Increase (decrease) in cash and cash equivalents	$ (47)	$ 87

The amount expended on financing was $1.5 billion, which included repayment of a bank loan secured to acquire Fallsview Casino and payments to the Province of Ontario. The initial loan of $794 million was provided in fiscal 2005 and is repayable over five years at an interest rate of 4.4 per cent per annum. Direct payments to the Province of Ontario are $1.4 billion, $19 million higher than last year. These payments represent net income adjusted for working capital requirements and capital expenditures.

The amount expended on investing activities, which include capital acquisitions and construction activities is $400 million, $201 million more than fiscal 2007. The most significant investments this year included the expenses related to the expansion and redevelopment project at Casino Windsor, construction of the Energy Centre at Casino Windsor and upgrades to slot machines.

3. ENTERPRISE RISK MANAGEMENT

OLG faces a number of risks to its business that could significantly impact its ability to achieve its financial and non-financial business objectives. While risks cannot be eliminated, OLG's strategies aim to ensure that key risks are identified and managed within acceptable tolerance levels. A formal Enterprise Risk Management (ERM) process is applied to day-to-day business activities as well as to strategic initiatives and projects.

OLG manages its risk profile and conducts its affairs in such a way as not to expose its customers and employees to harm or the Corporation to public criticism or disapproval.

An enterprise-wide business risk assessment is conducted in collaboration with senior management and is a key factor in planning and resource allocation. This includes assessing the impact and likelihood of risk events, specifically as they affect financial reporting, regulatory compliance and OLG's reputation – that is, customer/government confidence and public trust. Risks are assessed on a regular basis or upon occurrence of a significant risk event (e.g.: major economic or regulatory changes, terrorism, pandemic). An ERM Director supports the process by focusing on education, accountability, and corporate-wide coordination.

An Enterprise Project Management Office provides oversight in the planning and management of corporate initiatives through a governance structure that includes a Corporate Project Investment Council – an executive body that oversees the OLG project portfolio. The risk assessment is a key consideration in the prioritization of initiatives by the Council.

The current assessment identifies the top nine key risks facing OLG:

Social Responsibility Risk: The risk that the Corporation conducts its affairs in such a way as to expose its employees or customers to harm or the Corporation to public criticism or disapproval.

Resource Allocation Risk: The risk that the allocation of financial and human resources is not effective in enabling the organization to optimize customer service and business opportunities.

Leadership Risk: The risk that employees are not provided with the direction, vision and support to perform most effectively.

Talent Management Risk: The risk of not identifying successors to key positions and effectively developing and managing the human resources and intellectual capital necessary to enable and sustain the capability of the organization to achieve its business objectives.

Shareholder Relations Risk: The risk of not effectively managing expectations, resulting in a decline in government confidence that may impair the execution of business strategies.

Customer Satisfaction Risk: The risk that the organization's processes, products or services will not consistently meet or exceed expectations of the economic buyer.

Business Interruption Risk: The risk that unexpected shocks (economic, catastrophic, labour- or technology-related) will interrupt day-to-day operations and impede the organization's ability to achieve its business objectives.

Competitor Risk: The risk of not responding effectively to shifts and trends in the marketplace or economy.

Business Portfolio Risk: The risk of not effectively prioritizing products or balancing businesses in a strategic context to optimize business performance.

8. CRITICAL ACCOUNTING POLICIES

The Corporation's accounting policies, which are disclosed in the Significant Accounting Policies note (Note 1 of the consolidated financial statements), are in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are applied on a consistent basis.

The Corporation will be required to transition to International Financial Reporting Standards (IFRS), with full compliance and reporting under these new standards in fiscal 2012. Management will begin a self-assessment exercise which will include the development of a detailed transition project plan in fiscal 2009.

5. DISCLOSURES

Reconciliation of total revenue

Reconciliation of Total Revenue to Revenue as Referenced in Note 14

The Note 14 segment information includes total revenue as referenced in Note 14 and defined under Canadian GAAP. The following information should be read in conjunction with Note 14 of the Consolidated Financial Statements.

2008	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Total revenue	$ 1,210,180	$ 1,704,645	$ 2,140,019	$ 5,054,844
Lottery prizes	1,566,091	–	–	1,566,091
Interest and other income	(5,678)	(23,051)	(19,412)	(48,141)
Foreign exchange loss (gain)	(37)	(9,545)	(1,457)	(11,039)
Reallocation of support services	2,569	(394)	4,454	6,629
Revenue as referenced in Note 14	$ 2,773,125	$ 1,671,655	$ 2,123,604	$ 6,568,384

2007	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Total revenue	$ 1,214,959	$ 1,766,249	$ 2,056,664	$ 5,037,872
Lottery prizes	1,444,145	–	–	1,444,145
Interest and other income	(5,176)	(22,795)	(18,205)	(46,176)
Foreign exchange loss (gain)	3	(13,361)	(3,420)	(16,778)
Reallocation of support services	1,676	(531)	5,989	7,134
Revenue as referenced in Note 14	$ 2,655,607	$ 1,729,562	$ 2,041,028	$ 6,426,197

Total revenue is used as the denominator in the calculation of the Adjusted EBIDA margin and payroll as a percentage of total revenue.

Reconciliation of net income

The items listed represent the income and expense amounts required to reconcile Adjusted EBIDA with net income as defined under Canadian GAAP. The following information should be read in conjunction with Note 14 of the audited financial statements.

2008	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Adjusted EBIDA	$ 718,610	$ 369,042	$ 1,084,036	$ 2,171,688
Amortization	(33,211)	(137,679)	(88,617)	(259,507)
Interest expense	(976)	(13,228)	–	(14,204)
Win contribution	–	(285,304)	(17,939)	(303,243)
Reallocation of support services and inter-company activity	2,806	11,270	(1,379)	12,697
Net income as referenced in Note 14	$ 687,229	$ (55,899)	$ 976,101	$ 1,607,431

2007	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Adjusted EBIDA	$ 772,083	$ 446,415	$ 1,033,831	$ 2,252,329
Amortization	(30,449)	(136,669)	(71,312)	(238,430)
Interest expense	–	(26,864)	–	(26,864)
Win contribution	–	(297,663)	(19,266)	(316,929)
Reallocation of support services and inter-company activity	(593)	(1,519)	127	(1,985)
Net income as referenced in Note 14	$ 741,041	$ (16,300)	$ 943,380	$ 1,668,121

The allocation of support services and inter-company activity is removed when determining Adjusted EBIDA as these items are deemed to be outside of the scope of control of divisional management and are, therefore, excluded from internal profitability measures.

Fees paid to External Auditors

For the fiscal year ended March 31, 2008, the Corporation retained its independent auditors, Grant Thornton LLP, KPMG LLP, Ernst & Young LLP and Deloitte & Touche LLP, to provide services in the categories and amounts shown below:

	Grant Thornton	KPMG	Ernst & Young	Deloitte & Touche	Fiscal 2008 Total	Fiscal 2007 Total
Audit services	$ 225,075	$ 981,229	$ 219,825	$ –	$ 1,426,129	$ 1,200,609
Audit-related services	43,411	145,238	–	461,586	650,235	279,167
Tax services	–	54,287	–	7,950	62,237	610,566
Other services	298,777	503,177	126,500	151,553	1,080,007	1,262,221
Total of all services	$ 567,263	$ 1,683,931	$ 346,325	$ 621,089	$ 3,218,608	$ 3,352,563

Note: Prepared on an accrual basis.

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